

**Evaluation of the Service's Efforts
To Acquire a New FFRDC**

Reference No. 091502 Date: November 20, 1998

**Evaluation of the Service’s Efforts
to Acquire a New FFRDC**

Table of Contents

Executive Summary..... Page i

Objective and Scope1

Background1

Results2

 Management needs to clearly define the responsibilities of all contractors
 involved in the modernization efforts.....3

 Procurement personnel need to take additional pro-active steps to ensure
 the FFRDC will be free from organizational conflicts of interest.5

Detailed Scope and ObjectivesAttachment I

Management’s Response.....Attachment II

Evaluation of the Service's Efforts to Acquire a New FFRDC

Executive Summary

The Service has undertaken a complete redesign and modernization of its computer-based information processing system. To assist with the modernization efforts, the Service is soliciting a PRIME contractor and another Federally Funded Research and Development Center (FFRDC) contractor to manage the overall modernization efforts. By establishing a FFRDC, the Service can obtain technical assistance without any organizational conflicts of interest, real or apparent.

The PRIME Contract and the new FFRDC contract will be used in conjunction with several other contracts to implement the planned modernization. The PRIME contractor will implement the modernization blueprint, and the new FFRDC contractor will validate the approach of the PRIME contractor to ensure it is consistent with the modernization blueprint.

The overall objective of this review was to assess the effectiveness of the solicitation process. Audit work was performed during the period of January 1998 through June 1998 in the National Office.

Results

Although the Service is soliciting contractors to assist with its modernization efforts, we determined additional emphasis is needed to define the interrelated roles of the various contractors and ensure all contractors remain free from potential conflicts of interest.

Management needs to clearly define the responsibilities of all contractors involved in the modernization efforts.

The roles and responsibilities of the major contractors contributing to the modernization efforts have not been fully defined. Management's indecision on contractor responsibilities resulted in changes to the new FFRDC solicitation and delayed contract award 18 months from the original target date.

The delays have impacted the initial purpose of the new FFRDC contract. Originally, the new FFRDC was to be involved in the PRIME solicitation. However, due to the delays in awarding the new FFRDC contract, the solicitation was amended to remove all references to the PRIME solicitation. Without identifying each contractor's role in the effort, the Service is at risk of duplicating efforts, incurring additional costs, not receiving its anticipated outcomes, and delaying the modernization efforts.

Evaluation of the Service's Efforts to Acquire a New FFRDC

Procurement personnel need to take additional pro-active steps to ensure the FFRDC will be free from organizational conflicts of interest.

Procurement officials do not have sufficient measures for ensuring the FFRDC remains free from organizational conflicts of interest. Currently, the FFRDC contractor signs a statement agreeing to maintain its objectivity and independence. However, Procurement does not validate the contractor's compliance with this statement.

Although the selected contractor's policy and procedures will be incorporated into the contract, this does not ensure freedom from organizational conflicts of interest. We believe a periodic validation of the FFRDC's compliance with its internal policies and procedures needs to be implemented. The need for the FFRDC contractor to be impartial is vital because during the 15-year life of the multi-billion dollar PRIME contract, the FFRDC contractor will be evaluating the PRIME's performance and providing recommendations. If the FFRDC is not free from conflicts of interest, the Service cannot rely upon the evaluations and recommendations provided by the FFRDC.

Summary Recommendations

The following summarizes the specific recommendations contained in this report:

- Information Systems management needs to clearly define the responsibilities of all contractors involved in the modernization efforts, as well as the interdependencies between the various contracts. Each contractor's responsibilities should be sufficiently defined to assure the work of the various contractors will not overlap.
- Procurement personnel should periodically validate the FFRDC's effectiveness in maintaining its freedom from organizational conflicts of interest, including a review of the other agencies or organizations which utilize the FFRDC.
- Management's Response: Management agreed with the facts cited in the report and is taking the appropriate corrective actions. Portions of the management response related to each recommendation are included in the report. Attachment II contains the complete text of the management response.

Evaluation of the Service's Efforts to Acquire a New FFRDC

Objective and Scope

The overall objective of this review was to assess the effectiveness of the solicitation process. Audit work was performed during the period of January 1998 through June 1998 in the National Office. The review was conducted in accordance with generally accepted government auditing standards. The detailed scope and objectives of the review are presented in Attachment I.

Background

To modernize its information systems, the Service established several contracts.

The Service has undertaken a complete redesign and modernization of its computer-based information processing system. To assist in the modernization efforts, the Service established the following contracts: Integrated Support Contract (ISC), Treasury Information Processing Support Services (TIPSS), and a Federally Funded Research and Development Center (FFRDC) contract with the Illinois Institute of Technology and Research Institute (IITRI). In addition to these contracts, the Service is soliciting a PRIME contractor and another FFRDC to manage the overall modernization efforts.

The framework for the modernization efforts was outlined by the ISC contractor in a "modernization blueprint". The Service is in the process of selecting a PRIME contractor to implement the modernization blueprint, and a new FFRDC contractor to validate the approach of the PRIME contractor to ensure it is consistent with the modernization blueprint.

The General Accounting Office and Congressional review have determined, and the Department of Treasury and the Modernization Management Board have acknowledged, that there is a critical need for strategic information management. By establishing a FFRDC, technical assistance can be obtained without any organizational conflicts of interest, real or apparent. The

Evaluation of the Service's Efforts to Acquire a New FFRDC

nature of a FFRDC lends itself to a cost-effective, responsive, long-term relationship and allows the use of private sector resources to accomplish tasks that are integral to the mission of the agency.

Results

The Service recognized the critical need for an objective source of expert advice and guidance in determining, planning and evaluating the management and oversight of the modernization efforts. With multiple contractors to assist the Service in its modernization efforts, the Acting Associate Commissioner for Modernization/ Chief Information Officer (CIO) was seeking to identify the appropriate roles for all the contractors. On June 11, 1998, the Acting CIO held a meeting with Information Systems and Procurement personnel to discuss the appropriate usage of the various contracts. However, we were advised that a decision was not reached during the meeting.

While the Service recognized its need for the technical expertise of a FFRDC contractor, the 18-month delay in contract award has altered the intended use of this contract. During our review, we determined that improvements are needed in awarding and monitoring the FFRDC contract. Specifically, we noted:

- Management needs to clearly define the responsibilities of all contractors involved in the modernization efforts.
- Procurement personnel need to take additional proactive steps to ensure the new FFRDC contractor will be free from organizational conflicts of interest.

Evaluation of the Service's Efforts to Acquire a New FFRDC

Management needs to clearly define the responsibilities of all contractors involved in the modernization efforts.

The new FFRDC contract award has been delayed 18 months from the original target date.

The Service has not timely awarded the new FFRDC contract because management was indecisive about the roles and responsibilities of the major contractors contributing to the modernization efforts. As a result of the delays, the FFRDC contract will not be used for its original intended purpose.

Information Systems determined that a new FFRDC contract was needed in October 1996 and requested Procurement's assistance. The Service used the streamlined procurement process, and anticipated contract award in March 1997. Currently the solicitation is in Phase III, contractors' oral presentations and negotiations. A firm contract award date has not been established; however, Procurement personnel anticipate awarding the new FFRDC contract in September 1998.

Due to the significant delay in awarding the new FFRDC contract, the tasks outlined in the original Request for Proposal (RFP) cannot be performed. For example, the original RFP required the FFRDC contractor to assist in preparation of the PRIME RFP and assist with the PRIME bid evaluation. The Service has already issued the final PRIME RFP and bids were received June 1, 1998. The PRIME bids are currently being evaluated. Therefore, the FFRDC RFP was amended on June 2, 1998, to remove all requirements related to the PRIME RFP and bid evaluation.

Management's indecision on contractor responsibilities helped delay awarding the new FFRDC contract. For instance, the RFP, issued December 27, 1996, outlined five proposed tasks. In July 1997, Procurement orally informed potential bidders of a possible change in the number of tasks. Subsequent modifications to the RFP did not eliminate any of the original five tasks, and

Evaluation of the Service's Efforts to Acquire a New FFRDC

Without identifying each contractor's role in the effort, the Service is at risk of, incurring additional costs, and delaying the modernization efforts.

Information Systems personnel confirmed that all five tasks remained

We believe it is in the best interest of the government to ensure each contractor is aware of its responsibilities in modernizing the Service's computer systems as well as the interdependency with other contractors' work. The Service acknowledges that care must be taken to distinguish the work of the proposed FFRDC from the work of the other IRS contractors to prevent a conflict of interest or duplication of effort. Without identifying each contractor's role in the effort, the Service is at risk of duplicating efforts, incurring additional costs, not receiving its anticipated outcomes, and delaying the modernization efforts.

Recommendations:

1. Information Systems management needs to clearly define the responsibilities of the FFRDC, ISC, and PRIME contractors. The contractors' responsibilities, the government's role, and the interdependencies should be clearly communicated to each contractor, as well as Service personnel using these contracts.

Management's Response: Information Systems management will form a task force specifically dedicated to addressing the responsibilities of all contractors involved in the modernization effort, defining the Government's role and contract interdependencies. Once the responsibilities and interdependencies of the three contractors and the Government have been defined, they will be made available to the contractors, as well as Service personnel using the contracts.

2. Information Systems management should ensure tasks issued to each contractor are sufficiently defined to assure the work of the various contractors will not overlap.

Evaluation of the Service's Efforts to Acquire a New FFRDC

Management's Response: To manage the three key modernization contracts, IS will form a governing committee within the Contract Management Organization for task assignment management and oversight. The main focus of the governing committee will be to ensure that overlap and redundancy of tasks assigned to multiple contracts does not occur. The governing committee will develop a set of guidelines for task assignment. These guidelines may not be published with an IRS document number, but may be issued in a memorandum. The governing committee will implement the guidelines for task assignment immediately.

Procurement personnel need to take additional pro-active steps to ensure the FFRDC contractor will be free from organizational conflicts of interest.

Procurement officials do not have sufficient measures for ensuring a FFRDC remains free of organizational conflicts of interest. Currently, the FFRDC contractor signs a statement agreeing to maintain its objectivity and independence. However, Procurement does not validate the contractor's compliance with this statement.

Office of Procurement Policy Letter 84-1 states the FFRDC must be free from organizational conflicts of interest.

The Office of Procurement Policy Letter 84-1 created government-wide policies for the establishment, use, periodic review, and elimination of the sponsorship of FFRDCs. This policy letter states the FFRDC is required to operate in the public interest free from organizational conflicts of interest, and disclose its affairs to the primary sponsor. In addition, the Federal Acquisition Regulations (FAR) 35.017-4 dictate the FFRDC's ability to maintain its objectivity and independence be reviewed.

Procurement plans to require the new FFRDC bidders to submit their policies and procedures for maintaining freedom from organizational conflicts of interest. The selected contractor's policy and procedures will be incorporated into the contract. However, incorporating

Evaluation of the Service's Efforts to Acquire a New FFRDC

Procurement does not have sufficient measures for ensuring the FFRDC remains free of organizational conflicts of interest.

the policies and procedures into the contract does not ensure freedom from organizational conflicts of interest.

We were advised that the existing FFRDC—IITRI almost engaged in a potential organizational conflicts of interest situation. Under a separate contract, IITRI had initiated negotiations with a contractor who is a major contributor to the Service's modernization efforts. The Service discussed the situation with IITRI and IITRI voluntarily declined the work.

Only by chance did the Service learn of IITRI's potential organizational conflicts of interest. The proposed contract for the new FFRDC requires the contractor to notify the Contracting Officer of apparent or actual organizational conflicts of interest and submit a mitigation plan. However, Procurement does not have any measures to ensure the selected contractor complies with this requirement. Therefore, we believe a periodic validation of the FFRDC's compliance with its internal policies and procedures should be implemented.

The need for the FFRDC contractor to be impartial is vital because during the 15-year life of the multi-billion dollar PRIME contract, the FFRDC contractor will be evaluating the PRIME's performance and providing recommendations. If the FFRDC is not free from conflicts of interest, the Service can not rely upon the evaluations and recommendations provided by the FFRDC.

Recommendations:

3. Procurement personnel should periodically validate the FFRDC's compliance with its internal policies and procedures regarding organizational conflicts of interest.

Management's Response: The FFRDC contract awarded on October 8, 1998, requires the contractor's compliance with an organizational conflict of interest mitigation plan,

**Evaluation of the Service's Efforts
to Acquire a New FFRDC**

incorporated into the contract, and it requires the contractor to ensure that this plan is maintained and updated throughout the life of the contract. The contract also requires the contractor to provide to the contracting officer an annual report and certification regarding compliance with the conflict of interest mitigation plan.

4. Procurement personnel should periodically review the FFRDC's list of work performed for other agencies or organizations.

Management's Response: The FFRDC contract, awarded on October 8, 1998, requires the contractor to submit to the contracting officer for review an annual report on the performance of non-Treasury tasks.



Nancy LaManna
Audit Manager

Internal Audit Team:

Regina Dougherty, Senior Auditor
Dawn Smith, Internal Auditor

Evaluation of the Service's Efforts to Acquire a New FFRDC

Attachment I

Detailed Scope and Objectives

The overall objective of this review was to determine whether the solicitation process for the new FFRDC contractor was effective. Our detailed objectives and audit tests are outlined below.

- I. Evaluated the Service's need for a new FFRDC contract.
 - A. Obtained the following documents:
 - 1. Original Business Case/Requirements Analysis Package and any subsequent modifications.
 - 2. Original ISC contract and any subsequent modifications affecting the scope of the work or the tasks assigned.
 - 3. Original IITRI contract and any subsequent modifications affecting the scope of the work or the tasks assigned.
 - 4. Draft RFP for the PRIME
 - 5. Final RFP for the PRIME.
 - 6. Original Solicitation Issued (RFP) and any subsequent modifications.
 - 7. Any solicitation waivers.
 - 8. Statement of Work (SOW).
 - 9. Government Cost Estimate (GCE).
 - 10. Source Selection Plan.
 - B. Analyzed the above documents for:
 - 1. Overlap of duties/tasks between the IITRI, the ISC, and the proposed new FFRDC contract.
 - 2. Tasks in the solicitation that are no longer to be performed by the new FFRDC.
 - 3. Rationale for obtaining new FFRDC contract instead of using IITRI or other existing contracts.
 - C. Ensured the solicitation amendments and waivers are appropriately justified.

**Evaluation of the Service's Efforts
to Acquire a New FFRDC**

- D. Determined if the SOW clearly defines the roles of the new FFRDC and the ISC for work to be performed in conjunction with the PRIME.
 - E. Interviewed Procurement and Information System personnel to determine their understanding of the tasks/duties for the various contractors (IITRI, ISC, and new FFRDC) and the rationale for obtaining a new FFRDC contract.
 - F. Determined if the GCE was modified to reflect the reduction in work.
 - G. Determined if the source selection plan is adequate (FAR15.612(3)(c)).
- II. Evaluated the Service's plans for conducting phase III of the pre-award (Oral presentations and negotiations).
- A. Determined if the solicitation documents issued to the offerors/bidders identified the bid evaluation factors and their relative importance.
 - B. Determined how the evaluation factors and their relative importance were established.
 - C. Determined when the evaluation factors were identified and transmitted to the offerors/bidders (i.e. with the initial request for proposal, at the beginning of phase III).
 - D. Determined how delays for initiating phase III are communicated to the offerors/bidders and the effect, if any, on the amount of competition (i.e. have bidders withdrawn due to delays).
 - E. Determined if changes in the contract scope/duties/tasks have effected competition (i.e. have bidders withdrawn).
 - F. Determined if the technical evaluation team members:
 - 1. Were selected at the appropriate time.
 - 2. Remained the same for all phases of the solicitation.
 - 3. Have adequate skills/knowledge.
 - G. Determined the appropriateness of the down-select process used to eliminate vendors.

**Evaluation of the Service's Efforts
to Acquire a New FFRDC**

Attachment II



ASSISTANT COMMISSIONER
(PROCUREMENT)

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

November 2, 1998

MEMORANDUM FOR SCOTT WILSON
ACTING ASSISTANT CHIEF INSPECTOR (INTERNAL AUDIT)

FROM: Gregory D. Rothwell
Assistant Commissioner (Procurement) *Gregory D. Rothwell*

SUBJECT: Draft Internal Audit Report: Evaluation of the Service's Efforts
to Acquire a New Federally Funded Research and Development
Center (FFRDC)

We have proposed corrective actions, beginning on page 2 of this memorandum, in response to the recommendations in the above report. Attached is a memorandum from the Director of the Office of Information Resources Management with corrective actions in response to those recommendation for which her organization is responsible for completion.

Please call me at 622-8480 if you have any questions. Your staff may contact Tom Harner at 622-8867 for additional information.

Attachment

Approved:

D. A. Mader

David A. Mader
Chief Management and Administration

10/30/98

Date

Evaluation of the Service's Efforts to Acquire a New FFRDC

2

Recommendation No. 3:

Procurement should periodically validate the FFRDC's compliance with its internal policies and procedures regarding organizational conflicts of interest.

Assessment of Cause:

Procurement personnel need to take additional proactive steps to ensure the FFRDC contractor will be free from organizational conflicts of interest.

Corrective Action:

The FFRDC contract, awarded on October 8, 1998, requires contractor compliance with an organizational conflict of interest mitigation plan, incorporated into the contract, and it requires the contractor to ensure that this plan is maintained and updated throughout the life of the contract. Furthermore, any updates to the plan are to be incorporated into the contract. The contract also requires the contractor to provide to the contracting officer an annual report and certification regarding compliance with the conflict of interest mitigation plan.

Implementation Date:

Completed: October 8, 1998.

Responsible Official:

Assistant Commissioner (Procurement).

Recommendation No. 4:

Procurement personnel should periodically review the FFRDC's list of work performed for other agencies or organizations.

Assessment of Cause:

Procurement personnel need to take additional proactive steps to ensure the FFRDC contractor will be free from organizational conflicts of interest.

Corrective Action:

The FFRDC contract, awarded on October 8, 1998, requires the contractor to submit to the contracting officer for review an annual report on the performance of non-Treasury tasks.

Evaluation of the Service's Efforts to Acquire a New FFRDC

3

Implementation Date:

Completed: October 8, 1998

**Evaluation of the Service's Efforts
to Acquire a New FFRDC**



CHIEF INFORMATION OFFICER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OCT 29 1998

MEMORANDUM FOR ASSISTANT COMMISSIONER (PROCUREMENT)

FROM:

[Signature]
Helen H. Bolton

Director, Office of Information Resources Management IS:IR

SUBJECT:

Management Response for Internal Audit Report - *Evaluation of
the Service's Efforts to Acquire a New FFRDC*

The subject draft Internal Audit report has been reviewed and addressed by the Technical Contract Management Division. Attached is the management response, with the corrective actions and implementation dates, as required by Internal Audit.

If you have any questions, please contact me at (202) 283-4060 or you may have a member of your staff contact Barry Herrmann on (202) 283-7698.

Attachment

cc: Chief Inspector

Evaluation of the Service's Efforts to Acquire a New FFRDC

Management Response for Draft Report *Evaluation of the Service's Efforts to Acquire a New FFRDC*

FINDING #1

Management needs to clearly define the responsibilities of all contractors involved in the Modernization efforts.

RECOMMENDATION #1

Information Systems management needs to clearly define the responsibilities of the FFRDC, ISC and PRIME contractors. The contractors' responsibilities, the government's role, and the interdependencies should be clearly communicated to each contractor, as well as Service personnel using these contracts.

ASSESSMENT OF CAUSE

While the Information Systems (IS) organization recognized the need for the technical expertise of an FFRDC contractor, the eighteen month delay in contract award has altered the intended use. Additionally, the definition of roles and responsibilities of the other key Modernization contracts is continuing to evolve. In order to optimize utilization of these contracts, IS will manage all three contracts under a single contract management organization.

CORRECTIVE ACTION #1-1-1

Information Systems management will form a task force specifically dedicated to addressing the responsibilities of all contractors involved in the Modernization effort, defining the government's role and the contract interdependencies.

Once the responsibilities and interdependencies of the three contractors, and the government have been defined, they will be made available to the contractors, as well as Service personnel using the contracts.

IMPLEMENTATION DATE

Completed: _____

Proposed: January 1, 1999

Form a task force to define roles.
Publish results.

RESPONSIBLE OFFICIAL

Chief Information Officer IS

Assistant Commissioner (Program Management and Engineering) IS:PM

Director, Technical Contract Management IS:PM:C

Evaluation of the Service's Efforts to Acquire a New FFRDC

Management Response for Draft Report *Evaluation of the Service's Efforts to Acquire a New FFRDC*

FINDING #1

Management needs to clearly define the responsibilities of all contractors involved in the Modernization efforts.

RECOMMENDATION #2

Information Systems management should ensure tasks issued to each contractor are sufficiently defined to assure the work of the various contractors will not overlap.

ASSESSMENT OF CAUSE

While the Information Systems (IS) organization recognized the need for the technical expertise of an FFRDC contractor, the eighteen month delay in contract award has altered the intended use. Additionally, the definition of roles and responsibilities of the other key Modernization contracts is continuing to evolve. In order to optimize utilization of these contracts, IS will manage all three contracts under a single contract management organization.

CORRECTIVE ACTION #1-2-1

To manage the three key Modernization contracts, IS will form a governing committee within the contract management organization for task assignment management and oversight. The main focus of the governing committee will be to ensure that overlap and redundancy of tasks assigned to multiple contracts does not occur.

The governing committee will develop a set of guidelines for task assignment. These guidelines may not be published with an IRS document number, but may be issued in a memorandum. The governing committee will implement the guidelines for task assignment immediately.

IMPLEMENTATION DATE

Completed: _____

Proposed: February 1, 1999

Establish a governing committee.

Publish and implement guidelines.

RESPONSIBLE OFFICIAL

Chief Information Officer IS

Assistant Commissioner (Program Management and Engineering) IS:PM

Director, Technical Contract Management IS:PM:C